

Insurance

Module Description

A sixty- to ninety-minute interactive program suitable for all audiences, designed to develop knowledge and skills that will enable participants to make informed consumer decisions on the basic types of insurance and to determine their personnel needs for life insurance.

Materials

Life-Cycle Approach to Insurance Needs

Determining Life Insurance Needs

Financial Planning Worksheet

Note

Due to the complexity of the subject matter and a requirement for the presenter to possess sufficient background knowledge to field questions, this module provides for more detail than can normally be presented in a sixty- to ninety-minute program. The instructor should be prepared to provide local phone numbers for the appropriate sources of help and should provide information on relevant state automobile coverage requirements.



Instructor References

SECNAVINST 1754.1, Family Service Center Program

OPNAV Instruction 1740.5A (Draft), Personal Financial Management Education, Training and Counseling Program

Relevant Websites: www.ssa.gov (Social Security Administration)

www.lifelines4qol.org

www.consumerworld.org (insurance section) Command Financial Specialist Training Manual, NAVPERS 1560.8C (or later)

Dacey, Norman S., "What's Wrong with your Life Insurance", McMillan Publishing Co, New York, NY, 1989.

Garman/Fogue, "Personal Finance", Boston, MA, Houghton Mifflin Company, 1994, Chapters 11,12,and 14.

Homeowner's Insurance Consumer's Guide, State Corporation Commission, Bureau of Insurance, 1996.

Social Security: Understanding the Benefits, Social Security Administration, January 1998.

1998 Uniformed Services Almanac, Uniformed Services Almanac, Inc., 1997.





Objectives

At the conclusion of this program participants will be able to:

- Identify the primary purpose and one benefit of the following insurance categories: life, auto, homeowner's/ renter's, and health.
- Identify death benefits available to families of military personnel, to include SGLI, DIC, veteran benefits, and Social Security survivor benefits.
- Verbalize the state minimum requirements for automobile insurance.
- Determine life insurance needs, utilizing the worksheet provided.



1 Introduction

1.Introduce self:

Affiliation with Navy, background in financial education.

Purpose and Agenda

1. State Purpose:

The purpose of this program is to provide basic information on the various types of insurance available, how to accurately determine insurance needs, and how to shop for insurance. Specifically we will cover:

- Property Insurance
- Automobile Liability Insurance
- Health Insurance
- Life Insurance
- Determining Life Insurance Needs
- Choosing an Agent
- Shopping for Insurance

2. Motivational Questions

1. What is the purpose of insurance? Insurance allows an individual to substitute a small, certain financial payment, (the premium) for a large, uncertain loss, (the risk covered). It reduces risk by combining a large number of individuals into a group. All policies have limits which define the maximum amount you will be paid.



- 2. What kind of risks are you willing to accept, big or small? Insurance is designed to protect against major (or catastrophic) financial loss. Insurance allows you to decrease the risk of an unexpected event. A question to ask yourself is how much you are willing to risk. Do you want to cover your regular living expenses, replace lost or stolen items, pay for accidents and emergencies, and / or provide a particular lifestyle for your survivors? It is important to note that you cannot totally avoid risk. Trying to insure against all risk would be not only impossible but also very expensive. What you can do is reduce the financial impact of such risk.
- 3. Life-Cycle approach to insurance needs. Each individual goes through a number of major events in their life which have an impact on their financial picture and insurance needs. We all start out single and then go through a progression of different housing situations, family situations, accumulation of assets and ultimately death. This handout on the life-cycle approach to insurance needs covers the most common major life events and the recommended insurance requirements that go with each. Begin with a detailed assessment of your insurance needs, then review and make changes as necessary when major events occur. If nothing has changed in your life, there is no need to change your plan, no matter how good a salesman makes a good deal sound!
- 4. There are many different kinds of insurance. They fall into two broad categories:
 - 1. property/casualty
 - 2. life/health

NOTE:

Instructor should go over each life event and the insurance requirements that go with it.

Handout: Life-Cycle Approach to Insurance Needs



Some insurance, like health and disability are provided by the government while on active duty—we will touch on these only briefly. Other types of insurance are partly or totally the responsibility of each individual.

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Property and Casualty Insurance

1. Property/Casualty insurance provides protection both for loss of your own prperty and any liability you might have for another's loss. Real property covers the actual structures (your house and other buildings), personal property covers your belongings and liability insurance covers you when you are responsible for the losses of others.

1. Renter's Insurance

Most homeowners have insurance on their home and property—it is usually required to get a mortgage. However, many young service members have no renter's insurance to replace their personal property if it is destroyed or stolen. Those who fail to purchase renter's insurance can face a double problem. Not only do they lose, for example, their living room suite and washer/dryer, but they generally still owe 11 more payments to a creditor for those items. The creditor will expect the payments to keep coming in even after the furniture is no longer there. Renter's insurance is relatively inexpensive; the average junior service member can protect his or her property for approximately \$10 to \$15 per month. They should definitely consider getting replacement cost coverage, which will pay fully to replace items. This may also be called inflation guard protection.

Those living in government quarters do not need renter's insurance. The government insures the building but may not always cover your losses fully.





2. Homeowner's Insurance

Condominium or homeowners should comparison shop for insurance; the policy they may have bought as part of the sales process when they first closed on their home may not be the best deal. Policies are standardized. Most homeowners purchase a standard HO-5 (homeowners) "all risks" policy. This covers property damage to the home, damage to contents, liability against damages to others while on your property, and expenses if your are displaced for some time. This provides the same coverage regardless of which company issues it; the only real difference is the cost. Like renters, homeowners should consider buying replacement cost coverage.

Homeowner's insurance does **not** cover certain types of damage (including earth movement, water damage, power failure, neglect, war, nuclear accident, or intentional damage.) Most of these perils can be covered by a separate policy specific to that issue, such as earthquake insurance. However, the more common a problem is in an area, the higher the cost. For instance earthquake insurance in California is very expensive. Water damage—flooding—is the most common of these other damages. Insurance against damage due to flooding is required (and expensive) in some high-risk areas. However, it is generally inexpensive elsewhere, and often a wise purchase. Flood insurance is offered under the Federal Flood Insurance Program. Even though it is sold through commercial companies, the cost will be the same regardless of which company you buy from; it is the one type of insurance for which comparison shopping does no good.

Some personal property, particularly high cost items like jewelry, guns, collectibles, sporting gear, or computer equipment, is usually not fully covered under a standard policy; you may need a special rider or even a separate policy. Make sure you know what is and is not covered and what the policy limits are. This is the case with both homeowners and renters policies.



NOTE:
Instructors should
research the state
requirements for auto
insurance per person, per
accident, property
damage and medical
payments and provide
that information here on
slide # 6.

Keep good records! Once you have your property insured, it is a good idea to take an inventory and to keep a copy of the list somewhere safe (not at home). Photographs of your property may help in getting a full value settlement; some individuals have even rented or borrowed a video camera to take a videotape of their property to show the insurance adjuster in the event of a loss. For those who do own a home and consider renting it out, be certain to check with your insurer to see what effect it would have on your coverage and be certain that you are adequately covered for your house and personal property. If you move overseas, you face particular issues, and want to check with your insurance company.

Auto Insurance:

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Most states require drivers to purchase automobile liability insurance. There are four basic areas of auto insurance coverage.

- 1. **Liability** refers to your responsibility for other people's losses both property damage and bodily injury.
- Uninsured / underinsured motorist coverage is required by many states to protect you and your auto in an accident with an uninsured / underinsured driver who is at fault.
- Physical damage is the collision and comprehensive portion of your policy which covers only your vehicle and its contents.
- 4. **Medical payments** covers you and your passengers for injuries no matter who is at fault.

Most young military drivers purchase only the minimum coverage required by their state since it is all they can afford. How-





ever, mid-career personnel, or those with assets to protect, should seriously consider increasing their level of protection. \$50,000 is insufficient to cover medical and other bills in the event of a serious accident.

Recommended minimums for mid-career personnel are \$100,000 per person, \$300,000 per accident and \$50,000 property damage. Active duty military can leave medical coverage at the minimum required, since they and their families are covered by Tricare. The higher liability limits may be important; even if a driver has few assets, there is always the possibility that his or her future wages could be attached to settle a law suit. A higher limit might even help to guarantee your insurance company has the best legal assistance available working on your behalf! Uninsured motorist coverage is also a good idea. This is required in most states.

Often, junior personnel purchasing their first car will buy their insurance from the dealer; frequently this is collision coverage only, and protects only the lender's interest in the car. The service member will still need liability coverage to register the car on base. Purchasing auto insurance from a dealer is generally not recommended; investigating insurance coverage from several companies before going to purchase the vehicle is usually the best solution.

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There is a tremendous difference in price among auto insurance companies. Cost for the same coverage can vary by over 300%. Call at least three companies for quotes. Other ways to save include:

- Consider selecting a higher deductible. This is your outof-pocket expense which you will pay for repairs. Many consumers find a deductible of \$250 or \$500 to be the most cost-effective. Call and find out what savings will be at varying levels.
- If you have a second car and could afford to replace or to do without it for awhile, you may wish to drop collision coverage on that car entirely, particularly if the car is over 5 years old. Verify that you can afford to cover the loss first. Prepare a financial plan to check you status.
- A safe driving record helps to minimize insurance costs. For very small claims (or only slightly higher than your deductible) that involving no injuries to anyone, consider not filing for reimbursement; the increase in premium for having the accident may cost more than the amount you receive to cover the repairs!
- Keep your limits for "medical payments" at the state minimums; they only cover you and your family, and you already have your medical care paid for by the government.
- Drivers should be very selective when lending their cars.
 Also be certain to maintain coverage while on deployment. Most companies will allow continued coverage at a



reduced rate while deployed. Contact them and let them know your car will be "off the road". If you drop coverage, your rates will likely go up when you reinstate it. If you still owe money on the vehicle, the creditor will require you to maintain coverage.

 Coordinate coverage. Many companies give discounts to customers who buy multiple policies. Call the company you have your auto insurance with, and the one you have your homeowner's insurance with, and see what kind of a discount each will give you if you buy all your insurance through them.

"Umbrella" Insurance

An umbrella policy protects against loss in the event of a large damage award in a lawsuit, over and above the limits of an auto or homeowner's liability policy. Those with substantial assets to protect should consider an umbrella policy, as should anyone who may face particular risks. This could include owning an in-ground swimming pool, having a potentially dangerous dog for a pet, or regularly transporting other neighborhood children in your van. You usually are required to have \$300,000 to \$500,000 of insurance coverage on your regular policies before qualifying for an umbrella policy. In addition, insurers require that you have both your homeowners and auto policies with them. A \$1M umbrella policy can often be purchased at a relatively low cost (under \$150 per year), and could prevent someone from taking years of your future income in a judgment. Members with few assets to protect

Health Insurance

probably do not need an umbrella policy.

While on active duty, all of your health care and most of your family member's care is covered at no cost to you by CHAMPUS/TRICARE. In order to be covered, your dependant family mem-







bers must be enrolled in the Defense Eligibility Enrollment Reporting System (DEERS) by you and then be enrolled in the CHAMPUS/TRICARE program.

NOTE:

This issue is generally covered in detail in TRICARE briefings and outside the scope of this program.

Have a copy of the most recent TRICARE issue of Navy Times for class members to look over if this topic is to be discussed. It is a good idea to consider a TRICARE Supplemental policy, particularly when approaching retirement. This is especially true if they will be retiring to an area that is not near a military treatment facility or plan to use TRICARE Standard, or expect particularly high medical expenses out-of-pocket. The Navy Times has a special TRICARE issue each March which includes information on the many supplemental policies available. When shopping for a supplemental policy one question that must be asked is whether or not the policy is automatically convertible to a Medicare Supplemental policy in later years. Most are, but a few, including some that appear inexpensive at first, are not.

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Other Insurance

There are many other types of insurance that usually are not needed and are virtually always overpriced. These include:

- **Hospital Indemnity:** Often poor coverage (20 cents per \$1 premium versus an industry average of 50 cents per \$1). Particularly inappropriate for active duty families.
- Dread Disease (such as Cancer): Insurance usually covers only inpatient care; most cancer patients are treated on an outpatient basis. If you are hospitalized, it doesn't matter why (from a financial standpoint). Health insurance is important, but should protect against all illnesses.
- **Student Accident:** Often has limits; most college students will still be protected under TRICARE



- Credit Life Insurance: These offer to pay off the balance of a loan, such as a car payment or the balance on a credit card. Some even provide for payment in the event of disability or unemployment. Again, these are profit generators for the companies selling them, and rarely offer a good value for the money spent. It is also important to read the fine print very carefully to learn the exact terms of when they do (and do not) pay off.
- **Credit Card Loss:** Generally expensive; liability for fraudulent use is generally only \$50 per card.
- Collision (CDW) on Rental Cars: Check on it, but your own insurance and/or your credit card may already cover this.
- Accidental Death or Dismemberment: (or double coverage on life insurance for accidental death) From a financial standpoint, your survivors don't care how you died. The important thing is for them to have the resources to go on living. Most people, even those who die young, die from illness not accidents.
- Flight Insurance: \$14 per trip for \$1 Million in coverage. This is just like paying \$14 for a lottery ticket, but you have to die to collect.
- **Pet Insurance:** \$40-\$100 per year—and it often doesn't cover leukemia and other major illnesses.



• Extented Warranties (Repair Insurance) on consumer products: Most major consumer items, such as a car or refrigerator, already come with a manufacturer's warranty. Additional protection against unexpected repair bills later may be convenient, but you pay for the convenience. They would not be offering to sell it to you if they didn't think they were going to make money from you on it.

Always keep in mind the purpose of insurance: protection against major, unforeseen financial losses, such as loss of home, loss of car, or in the worst case loss of life.

14 Life Insurance

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1. The primary purpose of life insurance: to protect those who are dependent on you from the financial consequences of your death. You cannot insure against an emotional loss. If no one is financially dependent on you, there is no real need for insurance.

2. Determining Life Insurance Needs:

Who needs life insurance?

- Single, no dependents: Nobody suffers any real financial consequences, therefore the need is not present (beyond covering one time expenses such as burial costs).
- Children: Unless your child provides significant income
 to the home, the only financial consequence of their death
 would be medical and burial expenses. The need for insurance is usually minimal. Life insurance for children is
 often a poor use of scarce dollars—there are better ways
 to save for college.



- Married, One Income, No Children: One spouse is financially dependent on the other. Insurance would be needed to provide for the non-working spouse during his or her adjustment period following the death of the breadwinner.
- Married, Dual Income, No Children: Since both spouses are working, the major consideration will be providing money to pay off debts that they share and final expenses such as medical and funeral costs. Dual income couples often have more debts as well as more money.
- Married With Children: Here is the primary requirement for life insurance. Regardless of employment status, the surviving spouse is generally going to have a significant need for additional income to offset the loss of the other spouse's income while the children are living at home or are in college. Serious insurance planning is needed for both spouses, even if one is not currently employed. Consider costs of childcare if an active duty military member is the surviving spouse. When government benefits are taken into account, there is often a greater need for a commercial life insurance policy for the non-military spouse than for the active duty service member.
- **Single Parents:** Single parents will want to consider who will take care of the children, if they (the parent) die. A significant consideration when designating a guardian should be the guardian's financial ability to provide for the children's needs. Adequate insurance should be in place to compensate the guardian for the additional expenses of raising the children.



Handout:

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Determining Life Insurance Needs and Financial Planning Worksheet

NOTE:

Refer to the Developing your Spending Plan module for detailed information on preparing a budget.

3. How Much Is Needed?

The amount of life insurance you will need varies during your life. Usually there is little or no requirement in your 20's and 30's when you are single, unless you have dependants. When you marry, and particularly when you start raising a family, the need for life insurance greatly increases. Later in life, after your children have grown up and leave home, generally in your 50's, and you presumably have acquired other assets, the need for life insurance declines. This is also the time that the cost of life insurance becomes more expensive.

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Determining your exact life insurance needs will require some planning. An insurance agent may be able to provide assistance. Keep in mind that virtually all life insurance is still sold on a commission basis; an agent will have a vested interest both in the size and the type of policy you buy. You can often reach an accurate determination of your needs on your own by comparing the anticipated immediate and long range financial needs of your survivors with the assets available to satisfy those needs. Whatever shortage exists should be covered with insurance. The first step will be to prepare a detailed spending plan to determine your required monthly living expenses and credit payments. This will help you to determine what amount of income insurance must cover on a monthly basis. Utilize the financial planning worksheet to determine this information.

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4. Survivor benefits:

Include existing government benefits in any consideration of insurance needs. The military will pay the cost of a basic funeral and provide transportation for family members to it. The family will be provided a no cost final move and receive BAH or permission to live in housing for three months, and be paid for any accumulated leave or arrears in pay. Other benefits include:



- **Death Gratuity:** \$6,000 paid within 36 hours
- **SGLI:** Standard \$200,000 (this coverage can be decreased or even declined entirely by the service member but this is normally not a good idea. It will be difficult to find a better deal elsewhere. Many military occupations are considered "high risk" which means that a traditional policy may not cover you for work related accidents). Remember that the beneficiary of the policy, the one who will get the money, is determined by you. Many people forget to change this when their lives change. There have been cases where the ex-spouse is still listed as the beneficiary and gets the money and the new spouse and family get nothing.
- DIC (Dependent's Indemnity Compensation, provided by the VA): This is \$861 per month to a surviving spouse until remarriage, plus \$217 per month for each child (1999 figures). Provided by the VA, DIC is tax free.
- Social Security: \$225 and if the surviving spouse has children 18 or under, the family will be eligible for one or more monthly checks from social security. The benefit amount depends on the worker's earnings history. Individuals may receive a free estimate of social security benefits; forms are available at social security office or may be downloaded from the internet. Though exact social security survivor benefits vary, one example is: a married E-5, with 2 children, could expect his or her survivors to receive about \$1,600 per month from Social Security, indexed each year for inflation (plus the \$1,295 per month DIC).



Supplemental VA education benefits:

Available to a surviving spouse and children. At present this is \$404 per month for 44 academic months of full-time study.

All of the above taken together provide the foundation of a sizable estate for the average service member. In fact, the U.S. Government is often said to be the best benefit paying corporation in the world, if a member dies on active duty!

How is your situation? You need insurance for income, final expenses, and funds for lifestyle adjustments, but do you need more? Completing the worksheet will help you determine your family's financial needs, your assets to provide for them and how much more you need, if any. If all existing benefits are taken into account, it may be determined that a married service member with only one or two children has no, or only a minimal, need for additional life insurance protection.

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5. Factors Affecting Life Insurance Costs:

- **Age.** The possibility of death increases each year, as the insured grows older, therefore the "risk" being assumed by the insurance company is greater. The cost of the "insurance" portion of any policy will increase with age.
- **Gender.** For any age, women have a longer life expectancy than men, therefore their insurance costs are less.
- Occupation. The cost of life insurance can increase dramatically for those in "high risk" jobs such as aircraft crew members, demolition specialists, race drivers, or scuba divers. People with dangerous hobbies can also be affected the same way.



- Health. Your state of health determines not only your costs, but in some instances will determine if you are even insurable! Those with chronic health problems will face higher insurance premiums.
- Lifestyle. Certain lifestyle choices can affect insurance premiums. For example, smokers will pay almost twice as much for life insurance as a non-smoker of the same age. Most insurance companies consider you to be a smoker if you have used tobacco in any form at any time in the previous twelve months. Once a smoker quits, the rate for insurance will normally be reduced to the nonsmoker rates after twelve months.

6. Types of Life Insurance Policies:

All life insurance policies fall into one of two categories:

Term Insurance. Provides protection for a specific period of time (the term of the policy), after which it expires. Depending on the conditions stated in the policy, it may or may not be renewable for an additional term. Term insurance is "pure" insurance; you pay only for the protection you need.

Cash Value Insurance. Combines insurance protection with some form of tax deferred savings program with the insurance company. Once in place, cash value policies are normally in effect for the life of the insured. Your premiums combine the insurance cost with an amount to be deposited to your savings (the portion that builds "cash value").

Regardless of the name of the policy, all insurance policies are based on term insurance.



NOTE:

There are various types of term insurance.

Details on differing types are included mainly for presenter information.

7. Types of Term Insurance:

- Annual Renewable Term: The most basic type of insurance. The face amount (death benefits) of an ART policy remains constant, while the cost of the coverage increases each year. The "renewable" feature allows the policy to be automatically renewed at the end of each term (year) without proof of insurability. Most annually renewable term policies can be renewed until either age 65 or 70. Many policies are also convertible, which allows you to "convert" to cash value insurance if you choose.
- Level Term: This form of term insurance provides a level face amount and a level premium for the length of the term, normally five, ten, or twenty years. Since the premiums remain constant, they are higher than Annual Renewable Term in the early years and lower in the later years. The overall cost is usually slightly higher, but the fixed premiums may be more convenient for a budget.
- **Decreasing Term:** For this type of policy the premiums remain constant, while the face amount decreases. This type of insurance is often used most effectively to provide coverage against financial obligations that decrease over a specified period of time (such as a home mortgage). Some sub-categories of this are:
 - 1. Mortgage Life: An expensive form of decreasing term insurance that pays off your mortgage should you die. The beneficiary is the mortgage company, and your survivors have no say in how the proceeds will be used. It may not be desirable to pay off a low interest mortgage, and there could be a better use for this money. It is generally far preferable to cover a mortgage balance (and other obligations) with a standard policy in which the survivors are the



beneficiaries. (The cost of mortgage life is sometimes included in the mortgage payment, with interest charges attached, unless specifically rejected.)

2. Credit Life: Similar to mortgage insurance, it is always more expensive than standard life insurance; the same benefit can be gained for less money through an overall insurance plan. Should almost always be turned down if offered.

8. Advantages and Disadvantages of Term Insurance:

Advantages:

- Term policies are usually far less costly, particularly in the early years, when the purchaser is young. This is the time when the need for the insurance is normally greatest.
- Term insurance is generally simple and straightforward. Since, as long as the issuing company is reputable and financially strong, the only real difference is price, policies are relatively easy to compare.

Disadvantages:

- The cost increases steadily with age, very steeply after a certain point. Term insurance eventually becomes unaffordable and must be dropped.
- There is no cash value buildup.
- Because of the substantial cost advantage of term over cash value life insurance, many consumers elect to "buy term and invest the difference". However, you must actually invest the difference, not spend it on other items. Spending it elsewhere makes this a disadvantage. Before

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NOTE:

Instructor should strongly remind participants not to cancel any existing policies until they do a thorough personal review



cancelling a policy, talk with a professional and do a thorough review of your personal situation and time in policy.

9. Cash Value: Whole Life Insurance:

This insurance combines the "pure" insurance protection of a term policy with a "savings" account. The death benefit remains constant, and is the total of the savings portion, and the insurance portion of the policy. The policy normally endows (and the full face value is paid) at age 95 or 100 if the insured is still living.

Premiums are much higher initially for like amounts of coverage, compared to term policies. As the "savings" account grows, the insurance protection is reduced; the total equals the face value of the policy. Loans can be obtained against the cash value ("savings") at low interest rates, but the total death benefit will be reduced by the amount of the loan's outstanding balance plus any accrued interest.

Policies can be either "participating" (these pay dividends) or "non-participating". There is no intrinsic advantage to one or the other; all dividends are in reality refunds of previous overpayment on premiums, and have been so ruled by the IRS (which is why insurance policy dividends are not subject to federal income tax). With participating polices you have options of how to use the dividend. You can receive it in cash, use it to purchase a higher death benefit on the policy (which can help to keep up with inflation), or use the dividend to pay the monthly premium payments (this is called "buying down" the premium).



10. Advantages and Disadvantages of Whole Life Insurance:

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Advantages:

- Premiums remain level for life.
- Insurance coverage is guaranteed for life.
- The policy does build cash value which may be used later (though only by cashing in the policy).
- A loan can be taken against the cash value at a low interest rate (though this reduces the death benefit).
- Often, additional insurance may be purchased without evidence of insurability.

Disadvantages:

- Cost. Whole Life is far more expensive, particularly when an individual is young.
- Since insurance and savings are "bundled" together, it is often difficult to accurately compare policies.
- The actual return on money invested has generally been very low; whole life has traditionally been a poor way to save money. (Some recent "interest sensitive" Whole Life policies have shown a somewhat improved relative rate of return.)
- Initial expenses generally mean there is no cash buildup in the early years of the policy. Some surrender charges are in effect for the first 10-20 years.



11. Cash Value: Universal Life Insurance

First introduced in 1979, Universal Life shares many of the features of Whole Life, but with some notable differences.

- Where actual insurance costs are hidden with the premium in Whole Life, Universal discloses how much of each payment goes to savings, expense charges, and mortality costs. Normally an annual statement is furnished to the policy owner.
- Premiums, less expense charges, are deposited to a cash accumulation account (savings), from which the monthly cost of insurance is deducted. The remaining funds grow tax deferred; the account generally will pay a competitive rate of interest. Rates are typically higher than traditional Whole Life policies but will fluctuate up or down with overall interest rates. Like Whole Life, in order to get your money you must cancel the policy.
- Cash value will build up, as in Whole Life. Policy illustrations will often show cash value at a "projected" interest rate but should also show a (lower) "guaranteed" rate.
- With certain Universal policies the death benefit will be the face amount of the policy. These are called "Option A" policies. "Option B" policies allow the survivors to receive the face amount of the policy plus the cash value. It should come as no surprise that "Option B" is more expensive.
- Universal Life policies are flexible (the technical name is "Flexible Premium Adjustable Rate Life Insurance"). A service member might wish to reduce or stop paying premiums temporarily during transition to civilian life, for



example. Of course the cash value buildup will slow and eventually the amount in the cash accumulation account will decline unless there is enough money that interest earned can pay the insurance costs. Additional money can also be sent in tax deferred savings (although the IRS does set limits on the amounts that can be sheltered in this manner).

Many Universal Life policies are sold as limited-pay life; by paying additional (usually large) amounts early, the insurance is "paid up" after a certain number of years. If interest rates fall, the account would earn less, and an individual might have to start making payments again.

12. Advantages and Disadvantages of Universal Life Insurance:

Advantages:

- There is more disclosure (annual statement shows charges and interest earned).
- Universal Life generally pays a better rate than Whole Life.
- It offers greater flexibility (can increase or decrease premiums within limits).

Disadvantages:

- Interest rates are not guaranteed; they can go down as well as up.
- It is difficult to accurately estimate future cash values; other than a low guaranteed minimum (normally based on a 3.5% or 4% rate of return) there are no assurances of any dollar amount available in the future. Computer projections may or may not be realistic.



- Like Whole Life, it can be expensive in the early years, with similar costs and surrender charges.
- Also like Whole Life, Universal Life policies may contain "bells and whistles" and are often difficult to accurately compare.

Some companies (including many who deal frequently with military personnel) have a feature known as a side deposit account. This is a savings account with an insurance company offered along with either a term or cash value life insurance policy. These are often referred to as "Wealth Building" plans or by initials like "PDF" (Premium Deposit Fund) or "SDF" (Side Deposit Fund). Interest paid in such an account is taxable, but may be withdrawn by the policy holder at any time. Advertised rates of return on such accounts may appear attractive; however, the cost of the insurance must also be considered. Since insurance companies must invest primarily in fixed income securities, they cannot pay policyholders a rate far in excess of the long term rates in the fixed income market. If they are, it means that either the company is taking excessive risks (generally not), or, more likely, they are fudging the numbers. The cost of the insurance may more than offset the "high" return in the "investment" account. In addition, there is normally a small charge for each withdrawal, so making frequent, small withdrawals is very expensive for the policy owner. Although these "insurance and saving programs" are frequently advertised as retirement savings plans, it is important to note that they are not IRA's.

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13. Cash Value: Variable life (or Variable Universal Life):

Policies are now available with savings options in so-called separate accounts (similar to stock and bond mutual funds) to gain higher potential rates of return. These policies may only be sold by agents who also have a securities license. Analysis of these highly complex products is beyond the scope of this program. Be aware that these policies normally have high expenses and



carry very high surrender charges; since the performance of the savings portion is dependent on market conditions, the cash value may very greatly. In a protracted down market your premiums might have to be increased to keep the insurance in force. Individuals may want to ask whether they want their life insurance and investments all tied in together in one package.

Comparing Insurance Policies

1. Features to consider:

When shopping for new insurance, or when considering replacing an existing policy, you must attempt to compare the various features and costs involved to determine which policy best meets your needs at the cost you can afford.

- The first feature to consider is **face amount**—the amount of coverage you need. If, for example, your needs are for \$250,000 of coverage, you cannot compromise on that amount. To do so would be to put your family's financial future at risk. Once you have determined the face amount, you can then determine which policy is the best value, both now and in the future.
- Any insurance policy worthy of consideration must have a guarantee of renewability through the entire period when the protection will be needed. If, for example, you reasonably foresee a need for insurance until you are sixtyfive years old, you should consider only those policies that guarantee protection through that age.
- As an active duty military member, you should ensure any policy you purchase contains no war clause (excluding coverage due to combat or any combat related activity). Check for other possible limitations on coverage that may apply to you.



• Check the **financial strength of the company**. Past failures of some large insurers make it essential to check the financial stability of the company from which you plan to purchase a policy. Rating agencies such as A.M. Best, Standard and Poor's, Moody's, and Weiss rate insurance company strength. A++, AAA, and Aaa are the highest ratings for safety. While these ratings vary and are somewhat complicated, a good general guideline might be to use extreme caution when dealing with a company that has a letter less than "A" in its ratings.

- Finally, cost. Cost comparisons between cash value policies are often difficult. If you are considering a cash value policy, use caution when you analyze illustrations. Try to compare projected values on the policy with what you might receive by investing the same amount yourself in an IRA (Individual Retirement Account). The projected rate of return should be reasonable considering current market conditions; if the current quoted rate is more than two or three per cent higher than the rate for the 30 year US Treasury Bond, that is a warning flag. Check carefully both guaranteed and projected dollar figures on any illustration. The predicted cash value build-up within an insurance policy may not be based on any historical or factual data. In addition, commissions take a larger bite out of the cash value in the early years (as much as 100% of premiums in year one), thus reducing the amount of money working for you.
- Each policy should have a cost index. This is useful only when comparing very similar policies with the same structure and terms. (A lower number is better.)



- An excellent method for comparing policies and researching costs, particularly for term insurance is to use the internet price comparisions resources.
- Double check your findings. Consumer or financial publications can often provide valuable insurance information. Consumer Reports Magazine, for example, periodically publishes an extensive series of articles dealing with life insurance. This includes comparative ratings for sample policies from many companies. Several quote services are available that provide low cost insurance, particularly term insurance. The internet offers numerous opportunities for comparing life insurance quotes. Active duty service members should also check with Navy Mutual Aid Association for an additional comparison. (The association is non-profit and has no sales agents.)

2. Should You Replace Your Old Policy?

In general, you may consider replacing an old policy if:

- You are healthy (insurable).
- You can significantly lower your cost per \$1,000 of coverage.
- You currently hold several policies. (Each policy typically has an annual administrative fee of \$25-\$50. For someone with five different policies, that could be as much as \$250 a year that could better be applied toward the premiums of just one policy.)



 Your current policies are based on old mortality tables. Life expectancy is increasing, therefore the cost per \$1,000 of insurance protection for any age group is going down. Depending on how old your policies are, the difference between the older rates and the current rates can be significant.

Do not replace an existing policy if:

- Your health has declined to the point where it would adversely affect the cost of the premiums.
- Your costs per \$1,000 of coverage will not decrease.
- You don't plan on saving the difference between the old and new premiums.
- You don't think you can handle the pressure that your old agent might put on you to keep the existing policy. (Since most insurance commissions are paid in the first year, there will seldom be pressure not to replace a policy over one year old. Even if there is, that should not influence your decision.)
- Also remember that canceling any existing cash value policy in the early years will usually result in the loss of the cash value. Even an attractive cash value policy must generally be held 20 years or more in order to receive a good rate of return.



Choosing an Agent

1. Questions to ask an agent:

You may wish to check with your local Better Business Bureau, and with the agency that regulates the life insurance industry in your state Always check with at least two or three agents from different companies (or independent agencies). Ask the following questions:

- Is the agent licensed in the state?
- How long have they been in business, and what if any professional designations do they have?
- Will they use term insurance as a comparison?

2. Summary on shopping for insurance:

- Know what you need. Don't automatically rely on what an agent says you need.
- Comparison shop. Look at the costs and benefits of several different policies and types of policies.
- Understand your policy. Ask the agent lots of questions. Read the fine print!
- Don't be talked into anything. Take your time; give yourself at least a 24 hour "cooling off" period just as you should before making any other big-dollar purchase decision.

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3. Additional Resources:

Here are additional resources that can be used for obtaining price quotes on life insurance.

Term Life Insurance Quotes:

• Insurance Quote 800-972-1104

Quotesmith.com 800-556-9393

• Select Quote 800-343-1985

• Term Quote 800-444-8376

 Also contact Navy Mutual Aid to compare rates on term or cash value insurance 800-628-6011.

Conclusion

Having no insurance plan in place can be a costly mistake if others are dependent on you for their financial well-being. By using the basic information and handout provided you should be able to determine your insurance needs and be better equipped to analyze a policy and select what's best for you.